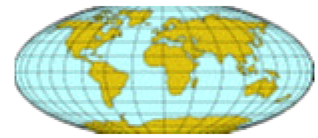
Virginia Forest Export News



Virginia Department of Agriculture and Consumer Services
Office of International Marketing
__________SPRING 2005__________

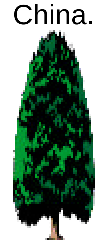
Local Market Report

Forestry consultants report that they have been busier than normal this spring. Pine tracts have been selling very well, and hardwood tracts have generated good interest up, until recent weeks. Buyers seem to be paying more attention to the species makeup on hardwood tracts, more so than has been normal. Poplar and walnut have been selling well in the northern part of the state, white oak seems to be doing well across the board, and red oak seems to be facing serious problems. On top of this, the normal summer slowdown is anticipated, especially for timber sales. Logging activities are reported to be on going.

Good pine stumpage prices have been attracting a lot of attention, particularly in Southside Virginia. Larger diameter timber stands seem to be more in demand than chip-in-saw size material. Some observers expect that the market will cool down as summer approaches and mill operators place loggers on quota as inventories build. With a buildup of stumpage on the books being held by a number of wood buyers, combined with timber sales contracts with time limitations running out, there are expectations that a number of buyers will concentrate on logging-out tracts, especially those on wetter sites, before they re-focus on buying additional stumpage. Others will say that this is just the right- time to negotiate. Many loggers are complaining that they are being squeezed so tightly by high costs of operations and modest contract logging payment arrangements that they cannot make ends meet.

White oak stumpage has been selling well. Red oak seems to be less of a hot item, especially in lower grades. Some have reported that the red oak market is as weak as they have seen it in recent years. Poplar logs are reported to be plentiful; the practice of not logging poplar after the sap has risen and the bark starts to slip does no seem to be adhered to as stringently as in the past. Recent trade mission contacts in China revealed a strong demand for #1 common and lower grades of poplar lumber, and better grades of walnut lumber.

The weak demand for red oak lumber surprises and confuses many in the US log and lumber markets. This species has long been the mainstay of the domestic lumber industry, and the primary raw material for the domestic furniture and flooring markets. Global market pressures have emphasized other species instead of red oak. The market acceptability problems with red oak are reinforced by information received from a variety of market observers, from American Hardwood Export Council's efforts to promote red oak usage in European markets to lack of buyer interest for red oak lumber, particularly lower grades seen at a two trade shows recently attended in China.



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Regional Market Reports

According to the ***Hardwood Market Report*** nearly 1.3 billion board feet of hardwood lumber was exported by US companies during 2004. The big buyers being European Union countries importing 290 million feet and China receiving 178 million board feet. The volume of lumber shipped to China has doubled in the last four years, while that shipped to Europe has remained constant. Exports to Mexico reported by US Department of Commerce (USDOC) are up as well. Based on figures released by USDA's Foreign Agricultural Service (FAS), overall exports by US hardwood lumber exporters in 2004 exceeded the previous high in exports of 33 million board feet shipped in 2000.

The **HMR** reports that industry expectations are that China will continue to be a growing market for North American hardwood species, but that "most Exporters say they harbor no illusions regarding the *competitive* nature of pricing in China." Other sources reported at recent trade shows in Guangzhou and Shanghai last month, that there was a growing feeling that the Chinese will follow a route taken by many developing markets faced by US hardwood exporters in past; that of negotiating from a "price sensitive" point of view - where cheap weighs relatively more in the negotiation process than does quality or other servicing aspects in the marketing process.

Another bright spot for US hardwood exports in 2004 as reported by **HMR** was Vietnam, with 21 million board feet having been shipped there. (Virginia companies accounted for nearly 12% of the lumber shipped to that market in 2004.) According to USDOC data other Asian countries that are important customer for US wood products in 2004 included Thailand ($30.9 million port value of solid wood products shipped), Malaysia ($39.0 million) and Indonesia ($57 million).

Other important customers of US wood products during 2004 were Canada at $2.1 billion, Spain at $215 million, UK at $190.8 million, Italy at $182.5 million and Germany at $163 million. As a group these traditional customers imported 48.7% of the total wood exports from the US in 2004 with an overall increase of purchases of 10.8% over business done in 2003. Total US solid wood exports (HMS 44) in 2004 were nearly $5.9 billion, compared to $5.2 billion in 2003.

Random Lengths International states that, while China may be a good customer of US hardwoods and softwoods (USDA reports that China imported 35.2 million board feet of pine lumber from the US), it is a net exporter of wood products. It is reported that China imported $5 billion and exported $5.1 billion in forest products, excluding pulp and paper. Softwood plywood is a growing export item from China to the US.

Virginia Wood Products Exports, 2004 Update

Wood exports from Virginia companies rebounded in 2004 after taking a dip in 2003. According to official reports, Virginia companies exported $220.2 million FAS (Free Alongside vessel) value in wood products during 2004.

Overall, the total value of wood products shipped through Norfolk ports to overseas markets is reported to have been $549.6 million. Both of these values reflect the highest level of export business on the part of state and regional wood companies realized since this type of data has been tracked by VDACS.

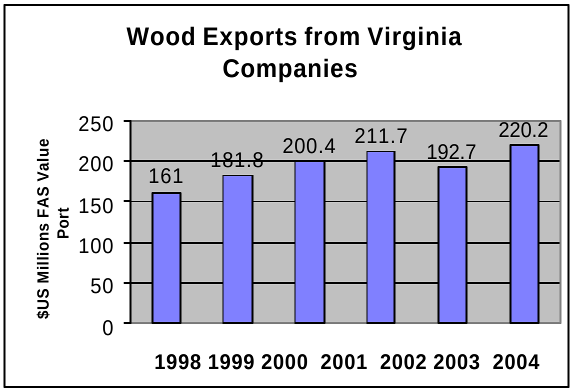
Markets where VA companies have been most successful this past year are Canada ($36.8 million), Italy ($31.0 million), China ($28.3 million), Spain ($26.3 million) and Germany ($13.1million).

The value of lumber exports by Virginia companies to Mexico has nearly doubled in two years. It appears that increased marketing efforts on behalf of state officials and Virginia lumber companies have caused an increase in the value of exports from $1.7 million in 2002, to $3.3 million in 2004.

Other countries showing good growth over the past year: Portugal ($6.5million +12%), Saudi

Arabia ($4.8million+57%), Vietnam (4.7million+46%), Indonesia ($4.6million+130%) and Greece ($2.2 million+105%). Wood products were shipped to a total of 73 countries by VA companies. Wood exports by all companies, in state and out of state, through Norfolk went to 93 countries last year.

Regional Export Statistics



Listed in the following chart are top overseas markets for wood products shipped through Norfolk, Virginia District ports. ***(Canada and Mexico are not included with Norfolk District Ports data but are included in Virginia company data.)***

Wood Exports, Norfolk District Ports.
Top Customers, Based on 2003
FAS Value, $Millions

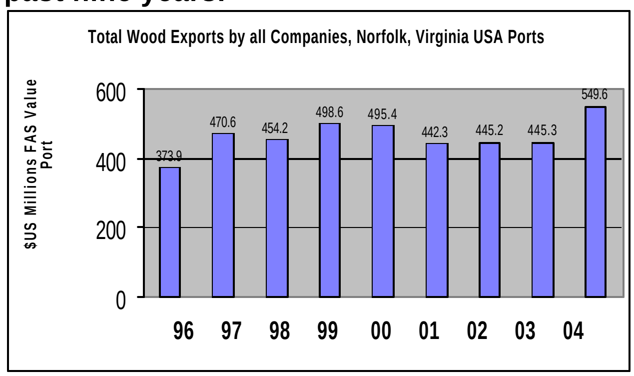
Country	2001	2002	2003	2004
Italy	69.4	66.4	69.8	80.0
Spain	76.3	70.6	68.6	84.1
China	16.9	31.3	44.8	67.3
Germany	29.0	32.9	42.5	49.1
UK	36.0	37.8	34.2	39.9
Hong Kong	31.8	38.2	27.7	26.9
Belgium	14.0	15.1	12.7	15.0
Japan	43.3	16.0	12.2	12.2
Ireland	5.2	7.6	8.5	9.8
Taiwan	10.8	10.4	8.4	9.5
France	11.3	10.1	8.2	8.5
Korea, S		8.8	8.3	7.2
6.0				

Export data provided by USDA/Foreign Agricultural Service and USDA/Forest Service

Wood export data during the past seven years shows that shipments out of Norfolk, from all states, rose to a high of $498.6 million in 1999, fell-off to $445.2 million in 2002 and $445.3 million in 2003, and rebounded strongly with $549.6 million in wood products being shipped through Norfolk to 93 different countries in 2004.

Other markets showing good promise with receipts of shipments of wood products from Norfolk during 2004 were: Portugal $19.4 million, Indonesia $13.2 million, Malaysia $11.3 million, Vietnam $9.8 million, Saudia Arabia $8.4 million Thailand $7.3 million, Netherlands $7.2 million, Greece $6.8, Denmark $6.4 and Sweden $6.7 million.

The following chart shows wood exports out of Norfolk from all states during the past nine years.



Listed in the following chart are the top ten markets for Virginia based company wood product exports:

Wood Exports, Virginia Based Companies.
Top Customers, past four years
FAS Value, $Millions
Total

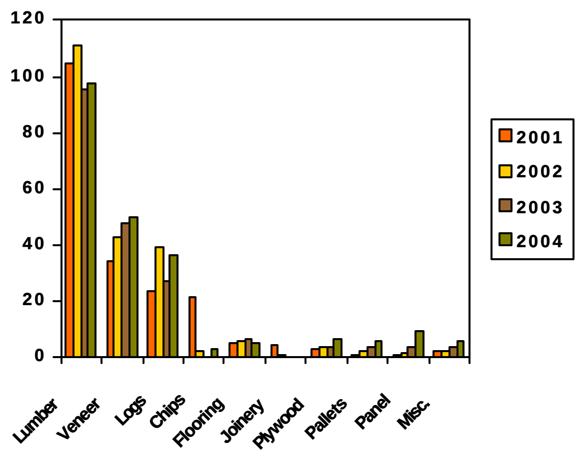
Country	2001	2002	2003	2004
Canada	27.5	25.2	28.2	36.8
Italy	24.5	25.1	22.0	31.0
China	8.2	20.6	21.5	28.3
Spain	25.8	28.2	27.7	26.3
Germany	9.3	10.0	13.3	13.1
UK	10.9	12.8	11.5	12.3
Hong Kong	18.9	22.0	14.4	9.4
Japan	31.6	10.6	7.2	6.6
Portugal	3.2	4.7	5.8	6.5
Saudi Arabia	2.1	2.1	3.1	4.8

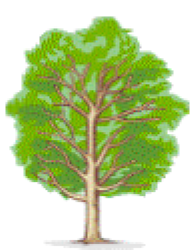
Export data provided by USDOC

Virginia companies exported $97.4 million worth of lumber in 2004. Other important

wood products exported by Virginia based companies were veneers at $49.9 million, logs at $36.7, flooring at $5.3 million, plywood at $6.4 million, wood chips at $2.7 million, pallets at $5.6 million, panels at $9.3 million, handles at $1.0 million, wooden barrels, staves and headers at $0.3million, and joinery at $0.5 million.

The following chart shows a graphic comparison, in $millions FAS value of the different wood products exported by Virginia companies during the past four years.





Virginia Forest-Based Economic Development Council

The Virginia Forest-Based Economic Development Council is working to maintain and expand the economic importance of forest–based businesses in Virginia. Council members are working together, looking for ways to promote the Commonwealth's forest products industry. In addition to VDACS, Council members represent VA Tech, VA Department of Forestry, VA Economic Development Partnership, VA Port Authority and VA Department of Business Assistance.

The Council has completed a number of activities in recent months to promote Virginia's forest products industry including participating in trade shows, presenting information to prospective customers, and working with industry representatives. Other activities planned where the Council will coordinate promotional efforts include participating in upcoming international trade shows, **INTERZUM**, which will be held in Cologne, Germany and **Ligna plus**, scheduled for Hannover, Germany, both to be held in May 2005.

Other projects the Council is working on include efforts involving utilization of biomass for energy; transportation issues involving the forest products industry; phyto sanitary issues with using wood products in a variety of applications, especially in packaging and shipping; marketing and promotion of primary, secondary, and value-added forest products; and many others.

"Improving the International competitiveness of the Forest Products Industry through Improved Transportation Methods", is the title of one proposal being promoted by the Council. The purpose of this initiative is to enable wood products, particularly from distressed areas of Appalachia, to be more competitive in world markets by making transportation means more cost effective. The primary goal of another proposed activity is to facilitate the marketing of Christmas trees from Virginia, and other states that may be affected by phytosanitary barriers, to Mexico.

Tight Cooperage Initiative Gains Steam

VDACS/OIM continues to work with local

interests and officials from Kentucky in an activity to promote Southern U.S. white oak stave logs, barrels and staves for aging fine wines in Chile, Argentina, Uruguay, and other Latin American markets. The activity was developed as part of a program sponsored by the Southern US Trade Association (SUSTA).

The VDACS Forest Products Specialist completed a first activity in May 2004, which included a mission to Mendoza, Argentina and Montevideo, Uruguay. The main feature of this activity included organizing an informational SUSTA Booth at the SITEVI Mercosur winemaking trade show in the key wine making area of Argentina. As a result of contacts made during that mission several truckloads of barrels were sold by a Kentucky producer to a buyer in Argentina. A great deal of interest continues to be expressed in American white oak, especially from the Appalachian Region, by wine makers in Latin America.

VDACS/OIM is co-managing this activity together with the Kentucky Department of Agriculture. USDA/Foreign Agricultural Service has appropriated funds amounting to $25,092 for activities during this fiscal year, the second year of the initiative. During 2005, activities are planned concentrating on promoting white oak to the Chilean wine market. *Components of this year's efforts include a trade mission to Chile to participate in the Vinitech 2005 trade show, July 14 – 16 in Santiago, Chile and a trade mission to visit with wine makers in Argentina, Uruguay and Chile.* The trade mission will be just prior to the trade show. USDA, Agricultural Trade Office staff in each of the three countries mentioned, is organizing visits.

We invite you to participate in the SUSTA pavilion at the 2005 Vinitech Show. If you are a barrel maker, barrel stave producer and/or wine producer, you do not want to miss this opportunity to exhibit in our SUSTA booth. Exports of US barrels and staves may reach to 20,000 (barrels) annually in the next 3-5 years. The overall growth of wine production in Chile is fueling the importation of staves, barrels and wood chips.

A third year activity is being planned and may include bringing Latin American buyers to Virginia.

China Trade Shows Reported

The Forest Products Marketing Specialist, working with the Asia Pacific Director for the VDACS/OIM office, arranged for activities at two different trade shows in Mainland China. The venues, Guangzhou and Shanghai, represent two distinct market opportunities for Virginia companies. Guangzhou, located in southern China, just north of Hong Kong, is a furniture-making center. Shanghai, with is tremendous building projects is a more diverse consumer of wood products, not only for manufacturing to satisfy export markets, but also for domestic consumption for upscale, high-rise building projects. Some Chinese buyers who have become familiar with American woods through agent relationships have now begun buying containers of lumber, warehousing the wood, repackaging, and then selling partial loads to local builders, designers and architects. This is a radical distinction to others who continue passing along container loads of wood to furniture, door, and molding manufacturers, cabinetmakers, and other similar consumers that are producing mainly to satisfy export markets.

The Specialist visited China for the purpose of assisting Virginia companies in developing exports markets for forest products in China and other Asian markets. He helped in organizing the USA Pavilions in two important wood markets in China. He complemented the overall US effort with Virginia Forest Products exhibits at both shows. First, he had a small display at the Interzum- Guangzhou Show, March 18 - 21, 2005, and second he had a full-sized display at the Furnitek/WoodMac China 2005 trade show held in Shanghai, March 22 - 25, 2005. He and the Asian Director were key in working with the America Hardwood Export Councils Hong Kong and Shanghai staffs in assisting and organizing USA Pavilions at both of the shows.

Virginia companies had their own respective exhibits at the Interzum-Guangzhou show.

Other VA companies rented wall space at the space with a joint US Pavilion. At the Shanghai show, Virginia companies teamed-up with OIM officials with exhibits at Furnitek/WoodMac show. Several Virginia company representatives were in attendance and utilized the Virginia Forest Products booth. Others had their own, stand-alone exhibits. All had opportunities to generate business through direct contacts. The Specialist coordinated activities of the Virginia delegation at the shows with the VDACS Hong Kong Office Director, and with other states' marketing representatives under the Hardwood States Export Group. Assisting on site were Specialists from Tennessee and West Virginia.

Promotional materials were distributed at the VDACS booth. The forest products brochure, **Virginia Woods - Products for Export** and a directory of VA companies with export capabilities listing eighty-one companies seeking to export wood products were made available to visitors to the booths in Guangzhou and Shanghai. Two pieces of informational material in Chinese were also made available. Both presented an overview of Virginia's forest products industry to prospective Chinese customers and information about the types of wood products available from the state. Trade leads and business cards were collected from prospective customers. Approximately 80 trade inquires for specific products and/or information about products were received. Another twenty-five business cards from other visitors to the booth were collected. Additional trade opportunities are expected from these contacts. China has rapidly become an important customer for VA log, lumber and veneer exporting companies. In just a few years Virginia's wood exports to Mainland China have increased from less than $1million to $28.3 million. During 2004 wood products valued at more than $50 million were shipped via Norfolk ports to China.

A more complete report of this trip is available upon request, including photocopies of trade lead forms and business cards, access to materials collected at trade shows, and access to photographs taken during the trip. These items are on file in the VDACS/OIM office in Richmond.

China Wood Market Situation Analysis (updated 4/11/05) an in-depth look.

Background:

Chinese buyers recognize Virginia as a dependable source of American wood products, especially for quality hardwoods. During 2004 wood products exports to China by Virginia companies were tallied at $28.3 million, after Canada and Italy, being the third most important customer for Virginia wood products. Among US states, Virginia ranked fourth with sales that accounted for 12.8% of the VA logs, lumber, veneers, and other wood products exported worldwide to 73 different countries. The value of Virginia wood exports to China has increased dramatically the past three years, from $8.2 million in 2001, to $20.6 million in 2002, to $21.5 million in 2003, and to the $28.3 million value cited for the year just past.

Last year wood sales from Virginia to China rebounded after slumping in 2003 due to a number of conditions, ranging from negative affects due to the SARS outbreak in China, to a supply availability problem due to rainy weather affecting logging conditions in Virginia. A robust domestic market situation for wood products reduced the availability of wood for export. Also, increased pressures from other US hardwood exporting states that have become active in promoting their wood products have created a challenging situation for Virginia companies. Many times these market gains by neighboring states complement Virginia companies that may be supplying out-of-state businesses that are actually exporting. Exports of wood products through Norfolk for 2004 were up dramatically, from $44.8 million in 2003 to $67.3 million last year. While much of this business may not be assigned to a Virginia company because the exporting company has a NC, WV, or other state address, it is likely that much of the product was generated by a facility in Virginia and shipped by an out-of-state business. The top forest products commodity items shipped from Norfolk in 2004 were hardwood logs at $13.5 million, hardwood veneer at $22.9 million, tulipwood lumber at $9.8 million, red oak lumber at $4.3 million, and white oak lumber at $4.1 million.

Continued growth is expected as China continues to develop its markets for wood products. As in recent years, Virginia will need to continue to be aggressive in promoting the benefits of Virginia's woods in order to remain competitive with other suppliers from within the U.S. and beyond.

Hardwood States Export Group's Unified Strategy in China:
Virginia has organized promotional activities with the American Hardwood Export Council (AHEC) and other Appalachian states, the Hardwood States Export Group (HSEG) in order to become more competitive in the Chinese market. Efforts are being organized to overcome the lack of knowledge of the full range and depth of commercially available hardwood species, among wooden furniture manufacturers and building construction trades in China.

China is currently the world's leading furniture manufacturing nation. According to ***Weekly Hardwood Review***, in 2000 29% of all imported furniture to the United States was manufactured in China, and that number continues to increase. Appalachian Hardwood Manufacturers, Inc. reported in 2002 that 50% of wood furniture imports are shipments from China. The Chinese furniture industry has been able to grow rapidly, partially as a result of large-scale foreign and domestic investment. Investment in furniture production facilities has been largely concentrated in the Guangdong Province (Guangzhou) of southern China. Unfortunately, much of the furniture being manufactured in China for export to the United States is being manufactured using non- U.S. hardwood species.

China's domestic demand for furniture is also increasing as income levels rise and housing reforms are implemented. Chinese domestic furniture consumption is estimated to be increasing by approximately 7%, annually. CSIL Milano a furniture market research institute, reports that the Chinese furniture industry consists of 30,000 furniture producers and that more than 80% of the Chinese supply of furniture consists of household furniture.

While demand for U.S. hardwood products has strengthened in Greater China over the past few years, the vast majority of manufacturers in China are still using species other than U.S. hardwoods in production. Reports by industry watchers in China contend that much of these supplies are coming into country across neighboring borders; some of these materials are not legal. China's direct imports of U.S. hardwood lumber increased from $408,000 in 1990 to approximately $59 million in 2001, $83.8 million in 2002, and $108.0 million in 2003. When imports to/through Hong Kong are added, the value of U.S. hardwood lumber exports to China/Hong Kong in 2001 was $141 million; in 2002, $170.2 million; and in 2003, $178.5 million. It appears that direct trade is shifting from Hong Kong to China.

Despite these impressive export figures, U.S. hardwood lumber, dimension, and veneer exports to China have not kept pace with the increasing wood furniture production. According to USDA Gain Report #CH2026, the United States only accounted for 4.8% of China's total wood imports in 2001. In 2001, the United States supplied a disappointing 13.1% of China's temperate hardwood lumber needs. Chinese manufacturers are sourcing larger percentages of primary wood products from Southeast Asia, Eastern Europe, South America, and Africa.

U.S. exports of hardwood lumber and veneer to China have been affected by some confusion among Chinese manufacturers concerning the actual species of wood products available from the United States, and the characteristic of each species. This may be due, in part, to the fact that there are wood species in Asia which have similar names to species found in the United States; such as cherry, oak, and poplar, but are very different in their physical properties and appearance. It is also evident that even those Chinese companies which are familiar with some of the most widely available U.S. hardwood species are unaware of lesser-promoted, commercially available species such as sap gum, tupelo, basswood, hickory/pecan, sycamore, elm, and cypress.

In order to further increase the market share of U.S. hardwood product in China/Hong Kong. It will be important to target the material purchasers for the growing Chinese furniture industry and to educate these buyers concerning the breadth and depth of the American hardwood industry. Chinese buyers need to become more familiar with the range and usage of U.S. hardwood species available for furniture production, if exports of American hardwoods to China are to gain further market access and share. The best sources of information concerning commercially available U.S. hardwood species are U.S. hardwood suppliers themselves.

Thus far, the U.S. industry may not have been sufficiently aggressive in educating Chinese importers concerning the benefits of using U.S. hardwoods. Making one-to-one personal connections, which are critical to a mounting successful education effort and to growing business relationships in that country may be needed.

Summary:

An increased focus needs to be given to promoting U S and Virginia hardwoods for uses in new construction and renovation of domestic housing in China. Appalachian hardwoods need to be promoted for different uses. These may include flooring, moldings, cabinets, windows, doors, and other applications. Information about using different species, grades and dimensions for different applications will be helpful for introducing U. S. hardwoods into Chinese construction practices. Activities such as the USA Pavilions at the Guangzhou and Shanghai shows will be useful in assisting HSEG and other serious US exporting wood companies in reaching out to Chinese buyers. ***Success with this effort will lead to opportunities in other market areas, such as Vietnam, Indonesia, Malaysia, and even India.***

For more information about Virginia's efforts in Asia/Pacific please contact Richmond headquarters or:

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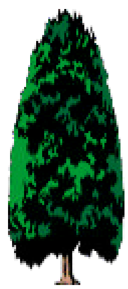

EUROPEAN MARKET REPORT

The following report on proposed methodology in assessing the Eastern European market for Virginia wood products is provided by Mr. Jens Elberling, Forestry Consultant to VDACS/OIM:

1. What products are of real interest to the industry in this part of Europe (Eastern Europe)?
2. Whom to approach first?

It is a big challenge to get both answers right. ***In relation to the first question a good knowledge about the present situation in the wood industry on the global scale is required, and some predictions about the future trends***

and development must be made. In other words, it is as much a forecast as an analysis. I will try to give my best input to the process.

Regarding the second question about whom to contact, this depends on the domestic industry structures in the region and individual countries subject to what products that have the potential to be manufactured in each of the countries.

What wood products from Virginia would sell in Eastern Europe goes into a matrix of wood species and product types, for instance White Oak logs, or Black Cherry veneer.

The species can be categorized into three types:

A. Wood species with similar appearance and characteristics as the domestic species that may be available in the country or the region, and in general acceptance in the market place. With species such as White Oak, Hard Maple (close to European Sycamore), and White Ash these categories will be of interest if demand exceeds the domestic supply base or if imported material is more competitive from a cost point of view.
B. Wood species with a distinct different appearance than any domestic species already well known in the market and may be sought by some consumers. Species like Black Cherry and Black Walnut belong to this type. The demand for these types of species is related to the general competition among different species in the typical product category. These species tend to be more expensive than the most common species; therefore demand is strongly related to presence of an upscale clientele.
C. Wood species that have different appearance and is not used in the country or region. Red Oak is a good example. This type will either jump into the market (if the business mode is "avante garde" or introduction requires intensive marketing to establish awareness of its potential.

The product type can be divided into five (minimum) categories:

1. Round logs are typically the preferred product type to import where labor cost differences between the Virginia product and that of the country are significant - if there is sufficient manufacturing capacity in the country.
2. Flitches (squared round logs) are similar to round logs, but the labor cost difference is less important. However, transportation costs are more influential to the cost structure.
3. Lumber is the typical product where a large labor cost difference does not exist which means log imports cannot be justified from an accounting point of view. Lumber is also very common where the importing country lacks a manufacturing industry with sufficient capacity or know-how.
4. Component (dimension cutting) will have a strong motivation when labor cost differences are insignificant, or at least are not more important than marginal transportation cost.
5. Veneer will tend to be a preferred product type for many of the same reasons as lumber: insignificant labor cost differences, high transportation cost or simply a lack of domestic manufacturing capacity or know how.

Eastern European Assessment (cont.)

The more simple business relationships tend to be in the categories 1 – 3, where the receiver of the product has more options for utilization, and because of this product specifications are less precise.

The more integrated, or well-established business relationships tend to relate to the product will be found with categories 3 – 5. The manufacturer needs to have a more detailed knowledge about the buyer's requirements. For the relationship to be successful the manufacturer must have the ability to fulfill these.

In understanding the wood industry's driving force regarding the above parameters (wood species and product type) in the region it is important to clarify for whom is the industry producing, and who will it produce for in the future. I would, as a minimum define the following three consumer segments as distinct:

1. Domestic (country) related
2. Western European related
3. USA and other part of the world related

Within this framework I will discuss some observations from my experiences (though these may need some updates) with Eastern European wood industries.
I suggest that one include input to this discussion from as many sources as possible in order to gradually get a complete picture, bearing in mind that some opinions are only forecasts about what the future might bring.

White Oak
It is the second most common species in the region, which puts it into the species category A. Over the long run I think that the domestic supply base will make imports of logs and flitches of only limited interest. However, at present and in the near future the surging demand indicates that logs and flitches will be of interest. The more value- added product categories, such as lumber, components, etc., are not competitive compared to domestic production.

If consumers, both in Western Europe and domestically in the US continue to favor White Oak, the long-term perspective indicates that lumber and veneer would be an increasingly good export article for VA manufacturers.

Hard Maple
Hard Maple is similar to Sycamore, where there is short supply across the region. Hard Maple is, and will probably continue to be, of real great demand in many product types. Because the species is relative expensive, the demand that drives the market is most likely coming from Western European consumers.

White Ash
White Ash is common in many countries in the region and demand fluctuates a great deal. In contrast to the higher priced Hard Maple, White Ash is more likely to be imported as component items and/or veneer, though it will be in strong competition, from a pricing standpoint, with domestic sources.

Black Cherry
Demand for Black Cherry has been strong in Western Europe for several years. As more consumers in the Eastern European countries increase their household income this demand could increase. In the near future I would assume that the species will be imported mainly as round logs / flitches, but some export driven furniture makers, and later domestic manufacturers of various product, may prefer to import Cherry as Lumber and/or perhaps as veneer, depending on the domestic capacity and sophistication of the consumer.

Black Walnut
This species has typically followed the trends of Black Cherry. However price and limited availability make it more volatile.

Red Oak
This species will probably require a significant marketing effort before it becomes a species in demand domestically in the region or even in Western Europe. However, export oriented manufacturers in Eastern Europe may sell into other regions of the world (Middle East, Far East and US) where Red Oak is in high demand. That may generate an increasing demand for logs and flitches.

Soft Maple
In contrast to Red Oak this species does appear less differentiated than from some other European species, and because of this Soft Maple could become a species of increased interest. In my opinion all the product types mentioned would be possible for this species, depending on which demand it would be used.

<u>Eastern European Assessment Summary</u>
It may be assumed that at present the majority of larger woodworking industries in the region are producing for consumers in Western Europe.

Generally speaking, a substantial part of the Western European industry has moved operations into the Eastern European countries due to the potential of more cost efficient production relative to lower labor cost, and to somewhat a less extend access to cheap raw material.

I have the impression that these companies are the most export oriented, and for that reason, most likely interested in a supply of US species. Some domestic companies in the region will also have export orders and related demand for some US species. The companies that are mainly or only producing for the domestic consumers will probably be the least inclined to experiment with US species at this time. As domestic household incomes increase, they will likely become interested in new species.

EVENTS

Interzum 2005, April 29 - May 3, 2005, Cologne, Germany. Virginia will have a booth at the show. Companies are invited to signup to share space in the space. A first-come, first-served basis will be used.

Ligna, May 2 - 6, 2005, Hannover, Germany. Virginia representatives will be at this all-important international wood industry show. Please advise if you are interested in forming a trade mission.

Vinitech 2005, July 14 – 16, 2005, Santiago, Chile. Virginia and Kentucky will organize the Southern US Trade Association's booth at this wine producers' show in order to promote white oak cooperage to the Latin American market. Companies are invited to signup to share space in the stand. A first-come, first-served basis will be used.

TRADE LEAD

Poplar logs- A Southeast-Asian buyer is seeking suppliers of large quantities of yellow poplar peeler-type logs. Logs are to be 4 sides clear, minimum of 8' long x 14" diameter small end, placed in 40 foot containers and delivered to East Coast US port. Contact VDACS/OIM office for details.

INFORMATION

For a copy of trade leads collected recently by VDACS/OIM personnel at overseas trade shows, Virginia companies are invited to contact the Richmond office.

For the latest on the White Oak log rules for the EU, sent an email and we will forward a copy of the regs to you.

For more about any information contained in this newsletter please contact:
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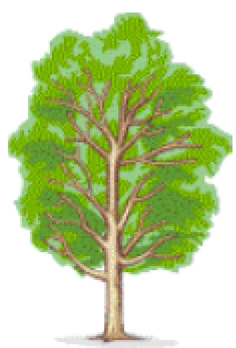
Want links to sites with information about wood markets and the wood industry? Click on the following site:
http://www.vdacs.virginia.gov/marketnews/lumber.html



VIRGINIA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES